

# **Creating a Competitive Advantage in Global Trade**

**A Definitive Guide to Increasing Revenues,  
Reducing Costs, and Optimizing Trade Processes  
for 21<sup>st</sup> Century Global Competitors**

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## Executive Summary

There are millions of dollars in working capital languishing in your international supply chain. So says Beth Enslow of the Aberdeen Group in her September 2005, *CFO's Agenda for Global Trade Benchmark Report*. The report boldly states, "A \$1 billion company can free \$10 million to \$40 million in cash by better controlling its basic global trade processes." Global trade remains one of the last frontiers where upgrading and optimizing business systems can create very significant financial and operational gains, giving corporations an additional strategy to create competitive advantage.

Two-thirds of the 170 companies surveyed by the Aberdeen Group reported that improving global trade processes is among their top three corporate initiatives.

This white paper is designed as an executive's guide to building an effective strategy to evaluate, prioritize and implement global trade initiatives.

### Accounting Comparison

Most major corporations have tight internal controls, sophisticated technology, and well managed organizations overseeing its various accounting processes. In fact, corporations have become so competent at self-auditing every invoice for complete accuracy that error rates typically discovered by outside auditing firms are only *one-tenth of one percent*.

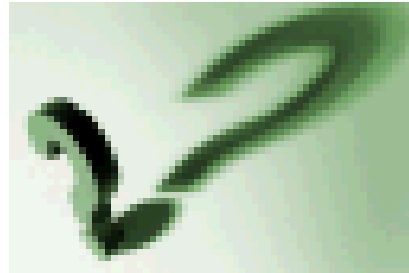
Executives may be surprised to learn that error rates in global trade processes approach 10 to 20 percent. The effective control of global trade processes is often *100 to 200 times worse* compared to accounts payable processes in the same company (see box on left). Surprisingly, this fact has gone unnoticed by many executives and the costs of ineffectiveness are growing. If you are a business leader reading this, have you taken notice in your company?

World Trade volume continues to grow at a dizzying pace. Total international trade grew from \$3 trillion in 1990 to \$9 trillion in 2005. The consulting firm McKenzie & Company recently estimated that international trade will reach \$70 trillion by 2025.

Trade regulation and compliance has become sobering business. The events of September 11th, 2001 and the corporate corruption scandals of Enron and

WorldCom changed forever the world of international trade. The U.S. government has responded aggressively by adding more complexity and more scrutiny to international trading standards and programs. It is also developing technology solutions and a National Targeting Center to increase its oversight and enforcement capability. In addition, the Sarbanes-Oxley Act of 2002 imposes strict requirements on executives, has potent enforcement powers and a strong emphasis on internal controls.

However, direct observation reveals that global trade processes remain woefully inadequate and error rates are staggeringly high. Why do so many large corporations continue to let this happen?



An executive looking for answers is likely to find several.

- Many companies have simply outsourced stewardship in the areas of Banking, Brokering and other third party trade services and have failed to invest adequate time or oversight in managing these important resources.
- Inadequate transparency and lack of metrics have left the executive in the dark regarding the magnitude of the problems in international trade processes.
- For many executives, global trade has been a low priority.

These may seem damning statements but you need look no further than to your own trade professionals to see that they have too much to do and not enough staff or resources to effectively do their jobs. This gap is an industry-wide epidemic responsible for intolerable error rates, non-compliance, incorrect declarations, and inaccurate financials – all of which can put you at serious risk, and your company at a competitive disadvantage.

Yet opportunities abound! A solution lies within the grasp of a determined executive. Your company's trade data can provide a blueprint to the corrective actions required to produce critical improvements and free literally millions of dollars from your supply chain. With existing data, current technology and a little resolve, corporations can implement cost-saving operational improvements, and design internal controls to effectively manage trade compliance and risk. And surprisingly, they can do it with a positive Return on Investment.

Section 2

## Understanding the History of Global Trade

Global trade is one of the few remaining corporate functions where arcane 'old style business rituals' are still the norm. Like other corporate functions before they were re-engineered and automated, global trade has been dominated by paper documentation and strapped together with multiple tiered manual processes. Service providers in charge have depended on the use of historical, intuitive knowledge of "what's supposed to happen to process trade goods." When errors are discovered (often simply stumbled upon) they are corrected one transaction at a time. It is classic 'fire-fighting' style process management, usually without a plan or executive oversight. It's not working well.

The long history of International Trade is fraught with supply chain complexity and unknown risks. Meeting today's challenges will require re-engineering using modern tools of automation. If your company is sourcing or selling on the world stage in the 21<sup>st</sup> Century, you will need sophisticated international trade knowledge and automated operations or your company will simply fall behind competitively.



As global trade activity continues its exponential growth, operational and financial executives will require a clear picture of projected cash flow, inventory levels, compliance metrics and hard and soft financial commitments. Global supply chain uncertainties – such as delayed or incomplete shipments, freight expediting expenses, unexpected customs fees or fines, and foreign currency fluctuations will need to be anticipated, decoded, and integrated into the company's overall business strategy to maintain a competitive advantage.

One Chief Financial Officer confided that his import operation is "a big black hole," lacking the information he needed to effectively assess risk and improve operations. But the world of global trade is undergoing a massive transformation, *an automation revolution*. Enlightened executives are re-engineering their internal work processes, improving their companies' global trade systems and creating new wealth through competitive trade advantages.

Section 3

## Case Studies: Insights for Corporate Action

You can leverage lessons learned and existing “best practices” in building an effective strategy to evaluate, prioritize and implement global trade initiatives.

The following case studies illustrate the benefits of challenging and reframing archaic “old line” business practices and the significant rewards that can be gained by improving basic global trade processes.

### Operational Issues

#### *Trade Database Improves ‘Spin Time’ by 300%*

Consider the Item Master File; the foundation of any effective procurement, inventory and accounts payable system. It is the Item Master file that maintains accurate information about each item in that system – including the negotiated cost of each item. Virtually every major business in America cares for and maintains their Item Master File in a database that is electronically linked to their procurement, payable and receiving systems so that current and reliable information is automatically applied as transactions occur.

In the world of global trade, this common business practice is seldom followed. It is the exception to find a global trade organization that maintains accurate and up-to-date item information regarding classification, licensing, or other relevant information in a database that is connected to enterprise-wide systems.

#### *Single Enterprise-Wide Database*

The Aberdeen Report strongly recommends for Action: “Enhance current import/export compliance and documentation processes to ensure classification consistency, accurate costing, error-free documentation, and uninterrupted flow of goods across the supply chain. Large companies, in particular, can drive significant savings by adopting a single enterprise-wide import/export database.”

**EXAMPLE:** One import professional spent more than three years single-handedly developing such a database and the impact has been significant for his company. Before his database was created, the average days of demurrage, or as he called it the ‘spin-time’ of an entry clearing customs was six days. Three years later, with thousands of items classified, documented and managed in a trade

database, the spin-time has been reduced to 1.45 days, an improvement of more than 300%.

CONCLUSION: This professional should be commended for his initiative, but could have made this contribution to his company sooner if he had been given additional support. For example, a third party servicing firm that specializes in classifying large numbers of items could have helped reduce the “spin-time” to 1.45 day more than two years earlier and created a significant advantage for this company over its competitors during that time.

*Accelerate the Supply Chain & Save Millions*

“Foreign-Trade Zones or FTZ’s can save importers millions of dollars and will often improve the speed of the supply chain,” says Tommy Berry, a leading expert in FTZ’s. Mr. Berry, President & CEO of PointTrade Services, Inc., has been involved in more than 150 FTZ sites in 29 states helping his clients save hundreds of millions of dollars over the past 20 years.

***C-TPAT Best Practice***

The January 06 *NAFTZ Zones Report* stated; ‘In the latest CBP guidelines on C-TPAT Best Practices include that ‘termination of the supply chain into a CBP-secure and activated FTZ site constitutes a Best Practice.’

The Foreign-Trade Zones Program is a federal program. FTZ’s are established to encourage and expedite U.S. participation in international trade. Foreign goods may be admitted to an FTZ without being subject to Customs duties or certain excise taxes. An importer using an FTZ can defer payment of duties until goods are entered into the commerce of the United States.

EXAMPLE: FTZ’s can be an excellent cash-creation strategy for companies with high trade volume. An importer with an FTZ accumulates multiple shipments imported during a 7-day period and combines them on one weekly entry. Weekly entry filing typically results in a company saving hundreds of thousands of dollars in broker’s fees and merchandise processing fees. Furthermore, all goods entering an FTZ are duty free until they leave the zone. A recent analysis of a \$300 million importer with an inventory of \$100 million of imported goods saved nearly \$2,700,000 one-time duty savings as the inventory ‘pipeline’ filled up with duty-free goods. The total first-year *return on investment* for this

importer exceeded \$3 million with annual recurring savings in excess of \$1,500,000.

CONCLUSION: If you are not enjoying the many benefits of a Foreign-Trade Zone, your global supply chain could be unnecessarily squandering millions of dollars per year. The savings and costs associated with creating an FTZ for your company can be easily calculated using your company's trade data. Companies like Mr. Berry's provide an *FTZ Return on Investment* estimate with all of the information you need to make an informed decision.

## **Financial Issues**

Your company's trade data can be converted, organized, and compiled into hard-hitting executive reports providing the information you need to identify millions of dollars unnecessarily trapped in your global supply chain. The following case studies are just a few examples of the information an executive should expect from their global trade data.

### *Smart Importers Shed Outdated & Costly Financial Services*

Letters of Credit or LC's are an outdated payment vehicle created centuries before advances in travel, telecommunications and the World Wide Web made our world a smaller place. Before the explosion in technology, it was difficult for an importer to effectively manage an overseas supplier and the letter of credit was a valuable tool to mitigate real risk.

In the 21<sup>st</sup> Century, importers can easily manage long-distance relationships with foreign suppliers and consequently, many are shifting from the antiqued and costly Letters of Credit system to Open Accounts and saving millions of dollars each year.



EXAMPLE: In one analysis, an importer with \$150 million in total annual imports calculated that it could free more than \$2 million in cash by shifting from letters of credit to open accounts – and eliminate the banking and administration fees involved.

CONCLUSION: If you are still using LC's, it could be costing you millions of dollars. The cost of money tied up in your supply chain due to letters of credit can be easily calculated using your company's trade data. The analysis can also identify the top 20% of suppliers that capture 80% of total opportunity so you can prioritize and focus corrective actions.

### *Huge Savings Buried in International Tax Tables*

For all executives, reliable information is a key resource. To produce information executives need for their work, they have to begin with some important questions.

- "What information do I owe to the people with whom I work and on whom I depend? In what form? And, in what time frame?"
- "What information do I need myself? From Whom? And, in what time frame?"

Both of these questions "What do I owe?" and "What do I need?" sound simple to answer. But they can be deceptively difficult.

EXAMPLE: A manufacturing company recently imported over \$300 million in a new product to country B from country A. They chose to import the product in its raw unprocessed form. The plan was to leverage existing capabilities in country B to convert the product into its final form, and then package it for distribution. Certainly, from an operations and marketing standpoint it was the logical decision. However, no one checked the Value-Added-Tax or VAT tables for the raw materials shipment versus a completely processed product shipment into country B. When the shipment arrived, there was an unexpected \$70 million VAT on the imported raw material.

Not surprisingly, a \$70 million tax charge created some executive distress and led to a frantic investigation. What the company discovered is quite amazing. If they had shipped the product directly to country B in its final distribution form, it would have reduced the VAT by \$50 million.

CONCLUSION: This \$50 million 'lesson' could have been avoided by asking the right questions and seeking the information that was needed. Third party content providers collect and maintain duties and taxes for literally hundreds of countries around the globe. This data can be linked to your existing trade data to identify large tax exposures and can be used to proactively mitigate heavy tax burdens before they occur.

## **Risk Control Issues**

### *Are You Doing Business with Bad Guys?*

The U.S. government is more closely scrutinizing all individuals and organizations that pose a security risk. Screening your customer contacts to be certain that your company is not selling goods to people or companies on a government maintained Denied Party List is a serious responsibility. And the task is made more challenging for companies because often they lack the necessary data and screening technology.



However, utilizing a third-party company that specializes in maintaining up-to-date Denied Party data and uses sophisticated screening technology can simplify the task and provide reliable results.

EXAMPLE: An exporter had a contact database of more than 43,000 records and enlisted help from a service provider who maintains multiple Denied Party Lists with nearly 4,000 entities, and nearly 6,000 addresses in 127 different countries. Through a series of automated processes, the service provider used numerous screening algorithms to match client contacts to Denied Party contacts. In this example, one individual in Plano, Texas was matched in the screening process and the company was able to discontinue business with this person as mandated by US law. The process was fast, accurate and compliant.

CONCLUSION: Integrating your contact database with a reputable service provider that maintains Denied Party Lists and uses automated screening processes can save time, improve compliance, and prevent costly penalties and legal suits.

Section 4

## Taking Action

Following September 11, 2001, the President immediately recognized our national security had changed forever, and that new policies, new organizations and new tools would be required to protect America against terrorism. *He acted.*

### Case Studies

Our Case Studies represent recent and well-documented events. We have elected to keep the names of the individuals and their respective companies confidential, with the exception of those who authorized being included in this report.

The following year, Congress recognized that corporate corruption exemplified by the failures of Enron, World Com, and others, required new legislation and reporting requirements in order to protect investors. *They acted.*

These two events have changed forever the responsibility and liability of companies importing merchandise into and exporting merchandise from the United States of America. *Have you taken action?*

- ❖ How certain are you that your company has sufficient internal controls within your import/export operations?
- ❖ How certain are you of the accuracy and transparency of trade data feeding your financial systems and U.S. Customs and Border Protection (CBP)?
- ❖ Does your company have a single person who has direct and regular access to the CEO, COO, and CFO to inform them of logistics and trade related risks and issues?
- ❖ Has your company documented internal controls that demonstrate REASONABLE CARE in accordance with the Modernization Act of 1993?
- ❖ Does your company meet the rigid standards for internal controls, transparency and accuracy of your international accounting and record keeping set by the SARBANES-OXLEY ACT OF 2002 (SOX)?

If you are an executive for a major corporation, *it is time to act!*

First, literally take a walk through your international organization and compare it to other corporate functions. Compare the head count, technology infrastructure, system sophistication, corporate oversight and internal controls. Is your international team under-staffed? Is it still relying on spreadsheets to

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manage information? Many are. International operations are notorious for their dependence on manual processes that keep the small staff busy on routine operations, and prevent them from addressing solutions to improve and optimize trade processes that are critical to your company. Manual trade processes are still being used today while other departments have sophisticated ERP systems, bar coding and EDI, satellite communications and even warehouse automation and robotics.

Second, assemble your company's trade data to create a blueprint for the corrective actions required to produce critical improvements and free literally millions of dollars from your supply chain. Such an analysis can provide you the objective and detailed information you need to evaluate, prioritize and implement global trade initiatives. And most can be accomplished with a positive *Return on Investment*.

With existing data, current technology and a little resolve, corporations can implement cost-saving operational improvements; design internal controls to effectively manage trade compliance and risk; and free literally millions of dollars from their global supply chain. Improving and optimizing global trade is indeed one of the last business frontiers for corporate process improvement... *now is the time for you to act!*





## GLOBAL DATA MINING

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### **About the Authors**

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### **About Global Data Mining**

Global Data Mining (GDM) is one organization that has acted to address the Forces of Change challenging global companies today. GDM and its strategic partners, Customs Info and Tariffic International, have joined forces to help importers meet these new challenges, use data and technology to identify and correct system weaknesses, and thrive as a global company in the 21<sup>st</sup> century. GDM helps international professionals and executives who are frustrated with inadequate resources, and working to improve compliance and increase the transparency of trade data feeding financial systems and executive leadership. GDM services provide a comprehensive overview of global systems, processes, data, guidelines and documentation. Visit them at [www.gdmlc.com](http://www.gdmlc.com).

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